

CBO **PAPERS**

**REDUCTIONS IN
THE ARMY OFFICER CORPS**

April 1992



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PREFACE

Over the next several years, the Department of Defense will undergo a major reduction in its military personnel. A substantial number of commissioned officers in the Army, as well as in the other services, will be included in this downsizing effort. Questions have been raised as to whether the reductions in the Army officer corps can be accomplished without involuntarily separating large numbers of officers. Moreover, there are concerns about the effects of the cuts on the personnel management system.

This analysis by the Congressional Budget Office (CBO) examines the Army's plan for reducing its officer corps and an alternative case. It assesses the possible impact on accessions, separations, and promotions. In addition, it considers the role of the two voluntary separation incentives recently enacted by the Congress. This paper was prepared at the request of the Subcommittee on Military Personnel and Compensation of the House Committee on Armed Services. In keeping with CBO's mandate to provide objective and nonpartisan analysis, the paper contains no recommendations.

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CHAPTER I

INTRODUCTION AND SUMMARY

The Department of Defense (DoD) is poised to undertake the largest drawdown in military personnel since the force reductions that followed the Vietnam War. Current plans call for about a 20 percent reduction in force structure over a five-year period, which would result in an active-duty military force of 1.6 million by September 30, 1995. As part of that reduction, the services would substantially reduce their numbers of officers, with the largest percentage of reductions occurring in the Army. Under the Administration's plan, the Army officer corps could be reduced by about 26,000 members--25 percent in the 1991-1995 period. The cuts could be deeper still if, in the aftermath of the dissolution of the Soviet Union, cuts in military forces prove to be larger than those planned by the Administration.

These reductions in the Army's officer corps will raise several issues. One will be whether or not to make the reductions primarily among the ranks of newly entering officers ("accessions") or their more senior counterparts. That decision will influence the number of career officers who must be separated from the service involuntarily. Minimizing the number of involuntary separations, especially among officers with fewer than the 20 years of service required to qualify for retirement pay, has been a high priority among some Members of Congress. The Army will also have to accomplish the drawdown within the legal limitations on the fraction of the total officer corps that can serve in senior pay grades. All of the decisions will be complicated by the new package of incentives for voluntary separation enacted in 1991 for active-duty personnel; those incentives, which provide cash payments or annuities to service members who leave military duty voluntarily, could substantially increase the number of Army officers who seek to leave active duty.

In examining how the Army might address these issues, this paper considers two options: the reductions likely under the Administration's (that is, the Army's) plan and under an illustrative case involving larger cuts. The paper concludes that in the first of these scenarios, the Army would have to continue early retirements of senior officers with more than 20 years of service and early releases of junior officers who have twice been passed over for promotion.

But the Army could probably avoid reductions-in-force (RIFs) of officers--that is, involuntary separations of Army captains and majors who have fewer than the 20 years of service required to qualify for retirement. Moreover, those officers who remain in service probably would not face major changes in the time required before promotion to higher ranks or in the opportunity to achieve it.

RIFs can be avoided only if, as the Army currently projects, a substantial number of its officers avail themselves of the new package of incentives for separation and leave the service voluntarily. Projecting acceptances is highly uncertain, however, because incentives of this type are new. They are now being offered to a selected number of officers, and although a significant number have taken advantage of the incentives, the Army still stands substantially short of its projected number of acceptances.¹

Avoiding RIFs may also require reductions in the number of officer accessions, and the Army apparently intends to make them. But the resulting level of officer accessions would probably not be sufficient to maintain the projected size of the officer corps over a long period of time. If the Army elects to keep accessions at or near the long-term sustaining level, it is not clear that RIFs can be avoided.

The Army would probably *not* be able to avoid RIFs if confronted with a substantially larger cut in its officer corps than the Administration now plans. With the cuts about one-quarter larger, for example, the Army might have to expand early retirements of officers with more than 20 years; in addition, between 1992 and 1995, the service might have to RIF several thousand officers who have fewer than 20 years, despite the availability of the new incentives for voluntary separation. That estimate of RIFs is based on the Army's assessment of how many officers will take advantage of the incentives for separation. The number of RIFs could be reduced, or avoided altogether, if the incentives for separation prove more popular than the Army expects or if the service offers them to more people.

Although the larger cut in Army officers examined in this paper is speculative, it is not unrealistic. The percentage of reductions corresponds roughly with some of the budget cuts being proposed by Members of Congress.

This paper is based on an analysis of Army line officers (referred to as Officer Personnel Management Directorate, or OPMD). They include nearly

1. At present, the Army expects to offer the incentives to roughly half of its officer corps.

70 percent of the officer corps. The results reflect an analysis of several strategies the Army might pursue in reducing the corps.

CHAPTER II

APPROACHES TO REDUCING

THE NUMBER OF OFFICER

PERSONNEL

As it confronts the need to reduce the size of its officer corps, the Army has several personnel management tools at its disposal. It can reduce the number of newly entering personnel ("accessions"). It can seek to increase voluntary losses by stepping up the early release of junior officers who are nearing their first term of active-duty service, as well as those who have twice been passed over for promotion. The Army can also separate officers involuntarily, although that process entails limits that vary by pay grade.

Involuntary separations can occur in numerous ways. One is by means of the Conditional Voluntary Indefinite board procedure. It involves officers with Reserve commissions as well as Regular Army officers in their initial term of active-duty service; the latter were included in the process for the first time in 1990. Both groups can request an indefinite extension of their commissions. The Lieutenant Retention Board reviews the requests. Those whom the board does not select are separated before their fourth year of service and are designated Conditional Voluntary Indefinite/Regular Army Board (CVI/RA Board) "separatees."¹ A procedure called selective early retirement involves the involuntary separation of a limited number of more senior officers--in the pay grade of lieutenant colonel and colonel--who have completed at least 20 years of service. Legislation that the Congress enacted

1. Officers who do not wish to be considered could request that their names not be included on the board's list. They would be classified as a Conditional Voluntary Indefinite/Regular Army Declination (CVI/RA Declination) and would be eligible to separate from the Army at the end of their first tour of duty. Officers in this category would be technically considered voluntary separatees.

in 1990 also enables the Army to conduct a RIF of captains or majors.² (See Table 1 for a description of the Army's grades.)

Each of those personnel actions has advantages and disadvantages. For example, reducing accessions would affect fewer people already in the service. But it might cut new entrants below the number needed to sustain the desired force size, and at some later point it will shrink the pool of officers eligible for promotion to senior positions. Moreover, heavy emphasis on reducing accessions would not save as much money as an equivalent number of cuts in more senior pay grades.

Opting instead to decrease the number of junior officers--those separated through CVI/RA declinations or after twice failing to achieve promotion--makes it unnecessary to coerce members into leaving the service. However, use of these tools is limited to the number of officers who are willing to leave.

Achieving force reductions through increases in involuntary separations would yield two closely related advantages. It would allow the Army to determine which officers should leave and in so doing enable the service to eliminate the less able performers. This approach, however, imposes a personal hardship on service members, something that many in the Congress have opposed.³ Opposition to RIFs, which affect officers who have not completed 20 years of service and are not eligible for retirement benefits, has been particularly strong.

In late 1991, in an effort to forestall RIFs and other such actions, the Congress enacted a substantial package of incentives for separation in the

2. In 1990, the Congress provided the services with more flexibility in separating and involuntarily retiring officers. The changes included the following: the authority to allow officers with 20 years of active service to retire voluntarily when they had two years-in-grade and at least eight years of active commissioned service, rather than the previous requirement of three and 10 years, respectively; the authority to expand the pool of O-5s and O-6s eligible for Selective Early Retirement Boards (SERBs); temporary authority for reductions-in-force to discharge involuntarily regular officers in grades below O-5; and a modification in separation pay along with the provision of a benefits package for officers involuntarily separated. See, *National Defense Authorization Act for Fiscal Year 1991*, report no. 101-923, Conference Report, to accompany H.R. 4739, 101:2 (1990), pp. 78-81.
3. Congressional concern resulted in two panels initially including prohibitions against reductions-in-force in their respective 1992 defense reports. The Senate Armed Services Committee included the prohibition for all services in its 1992 defense authorization bill. The House Appropriations Committee included a similar provision that applied only to the Army in its 1992 defense appropriations bill.

TABLE 1. ARMY PAY GRADES

Rank	Pay Grade	Typical Years of Service
Junior Officers		
Lieutenant (First or Second)	O-1, O-2	0 to 2
Captain	O-3	2 to 4
Field Grade Officers		
Major	O-4	4 to 11
Lieutenant Colonel	O-5	11 to 17
Colonel	O-6	17 to 22
General Officers		
Brigadier General	O-7	22 to 30
Major General	O-8	25 to 30
Lieutenant General	O-9	25 to 30
General	O-10	25 to 30

SOURCE: Congressional Budget Office.

hope of spurring the requisite losses voluntarily.⁴ The Department of Defense proposed one of those two programs of incentives for separation--the Voluntary Separation Incentive (VSI). VSI offers eligible officers who leave voluntarily an annual payment equal to their years of service at separation multiplied by 2.5 percent of their final basic pay--to be paid for a period equal to twice the officer's length of service. For example, an Army captain who leaves after eight years with a final basic pay of \$34,236 would receive \$6,847 annually (\$34,236 times eight times .025) for 16 years.

The other new program has been labeled Special Separation Benefit (SSB). Modeled after the benefits that the Congress enacted in 1990 for those separated involuntarily, SSB combines a lump-sum payment with an additional package of benefits that includes transitional medical care, preseparation counseling, employment assistance, commissary and exchange privileges, and relocation assistance. The lump-sum payment under SSB is 15 percent of final basic pay multiplied by the years of service. Thus, under SSB, the Army captain in the preceding example would receive a one-time payment of \$41,083 in addition to the package of transitional benefits.

These separation incentives are available only to personnel who have between six and 20 years of service at the time the benefits were enacted; further, the services can limit benefits to officers in selected career fields or with selected degrees of seniority. Eligible officers can choose whether to accept VSI or SSB.

Those who accept neither and who subsequently leave involuntarily will receive some smaller benefits. Primary among them: a cash payment equal to 10 percent of their final basic pay times their years of service, or \$27,389 for the Army captain in the example. Involuntary separatees will also receive the package of transitional medical care, counseling, and other benefits.

The Defense Officer Personnel Management Act of 1980 (Public Law 96-513, referred to as DOPMA) further restricts the military services' latitude in managing their officer personnel systems. DOPMA is designed to bring stability and interservice equity to the management of the officer corps. Through one of its provisions, DOPMA limits by statute the number of officers who can serve in the "field grade" positions of major, lieutenant colonel, and colonel. The limitations are a function of the total size of the Army officer corps; hence, the allowable number of field grade officers will decline with the size of the officer corps. In addition, DOPMA provides for standardized career patterns that limit the ability of the services to separate

4. *National Defense Authorization Act for Fiscal Years 1992 and 1993*, report no. 102-311, Conference Report, to accompany H.R. 2100, 102:1 (1991), pp. 110-114.

their career officers. With some exceptions, colonels have the right to remain in service up to 30 years, lieutenant colonels up to 28 years, and majors up to 20 years.

Sound management also depends on how many officers choose to leave the Army voluntarily and on whether those losses occur among officers with the pay grades and types of skills the Army can afford to lose. Even before the recent enactment of a package of incentives for separation, projections of voluntary departures were uncertain. No one could be sure how officers would react to the limited job prospects associated with recession and slow economic growth on the one hand and the prospect of fewer opportunities for command and promotion in a smaller Army on the other. It seems fair to say that although the new package of incentives will increase the number of voluntary losses, the size of the increase is highly uncertain.

In sum, the Army faces substantial uncertainty about how many of its officers will leave. The service is also restricted in choosing whom to separate and whom to promote. Finally, it must decide the size of cuts to impose on accessions, who represent its long-term future. Within these constraints, the Army must devise a plan to meet its goal for the number of personnel serving on active duty.

CHAPTER III

METHODS AND ASSUMPTIONS

In order to assess the effects of various policies, the Congressional Budget Office (CBO) developed a methodology that forecasts the number of Army officers by pay grade. The model projects the inventory and flow of the officer personnel management system and permits the simulation of changes in personnel policies--for example, the number of accessions and involuntary separations.

ASSUMPTIONS ABOUT "CONTINUATION BEHAVIOR"

The model assumes that, without involuntary separations, the willingness of officers to remain in the military ("continuation behavior") will continue at the level of 1990, the most recent year for which detailed data are available. Although this paper assesses the potential effects of the newly enacted separation incentives, they are too new to include in the detailed modeling.

It is also important to note that the model does not adjust for changes in continuation behavior that might occur in response to changes in promotion policies or force reductions. A slowing of the promotion rate, for example, could cause more people to leave. In practice, whatever changes in continuation occur would probably depend on the specifics of personnel policies, so it is difficult to anticipate even the direction of change in continuation, let alone its magnitude.

OFFICER POPULATION

This paper focuses on a key subpopulation of the Army's commissioned officer corps: line officers of the Officer Personnel Management Directorate. The OPMD includes officers who command such combat units as armor, infantry, and field artillery. This study population is of particular significance for the analysis undertaken here because it constitutes the great majority of commissioned officers in the Army, and it will therefore provide the largest pool for any drawdown of officers. Moreover, this subpopulation represents

a major percentage of the officers governed by DOPMA, roughly 83 percent, as shown in Table 2. In the remainder of this paper, the term "Army officers" refers to those in the OPMD.

Although the OPMD includes most of the Army officer corps, a number of types of officers are excluded. They include officers in the Selected Reserve and general officers (pay grade O-7 and above); dentists and warrant officers; judge advocates, physicians, chaplains, and nurses; and officers in the Medical Service and Specialists Corps.

ASSUMPTIONS ABOUT REDUCTIONS IN OFFICER PERSONNEL

Between 1990 and 1995, the Department of Defense plans to eliminate more than 463,000 military personnel from the active-duty force. By the end of 1995, the Army's "end-strength" (the number of personnel serving) will be 224,000 below that of 1990. As part of its downsizing efforts, the Army plans

TABLE 2. COMPOSITION OF THE ARMY'S OFFICER CORPS FOR FISCAL YEAR 1991

Population	Number
Total Officer Strength	103,344
Officers Subject to DOPMA Limits	81,065
OPMD Officers	67,242
Non-OPMD Officers	36,102

SOURCE: Congressional Budget Office based on Department of Defense data.

NOTES: DOPMA = Defense Officer Personnel Management Act. DOPMA limits govern the number of majors (O-4), lieutenant colonels (O-5), and colonels (O-6). OPMD = Officer Personnel Management Directorate. Non-OPMD officers include general officers, warrant officers, judge advocates, chaplains, and such medical personnel as doctors, dentists, and nurses.

to cut the officer corps to 60,200 members by the end of 1992 and to 50,500 by the end of 1995.

PERSONNEL MANAGEMENT POLICIES

This analysis assumes that the Army will rely on the same tools for personnel management it has used in the past to reduce the size of the officer corps. The possible actions also include reductions-in-force. Although the Army has not conducted a RIF recently, it has indicated that RIFs may be used in conjunction with other approaches.

DOPMA LIMITS

The Defense Officer Personnel Management Act sets grade limits--that is, allowable numbers of officers in the field grades (major, lieutenant colonel, and colonel). These limits apply to most Army officers, including some who are not part of the OPMD officer corps. While no grade limits apply officially and specifically to OPMD officers, for purposes of this paper CBO approximated the DOPMA limits attributable to OPMD officers in two steps. First, overall DOPMA grade ceilings were estimated on the basis of the end strength of DOPMA-countable officers and the DOPMA grade distribution table. Second, CBO assumed that the ratio of OPMD officers to total DOPMA-countable officers in each pay grade would remain at the same level in the later years as in fiscal year 1990. By applying the 1990 ratio to grade ceilings for DOPMA-countable officers, CBO estimated ceilings for OPMD officers.

CHAPTER IV

EFFECTS OF THE ADMINISTRATION'S PLANNED REDUCTIONS

The Administration's plan reduces the number of officers in the Officer Personnel Management Directorate from about 67,000 in 1991 to 60,200 in 1992. Between 1990 and 1995, the plan reduces the number by 25 percent. By 1995, the Army plans to have only 50,500 OPMD officers on active duty.

The Army has proposed an approach to carry out these reductions. Although the service has not made all of its details available, the key features apparently include continued reliance on early releases of junior officers, sharp cuts in accessions, and involuntary separation of some senior officers. In order to meet its end-strength goals under this plan, a substantial number of Army officers would have to take advantage of the recently enacted incentives for separation.

This chapter analyzes the Army's plan based on CBO's assumptions about its details (hereafter referred to as "the Army plan"). The chapter also discusses the effects of changing some of the assumptions, particularly those concerning numbers of accessions.

KEY ASSUMPTIONS

The plan features early releases of officers, reductions in accessions, and involuntary separation of senior officers.

Early Releases Continue

The release of junior officers encouraged to leave early is assumed to mirror recent patterns both in source and relative magnitude. To approximate the number of likely early releases during 1992 through 1995, CBO computed the losses that occurred in each category in 1990 as a percentage of the year-of-service (YOS) group affected. Those percentages were then applied to the appropriate YOS groups in succeeding years to arrive at the number of separations. Using that method, the number of early separations decreases

in time because the percentages are applied to declining force levels. As a result, the number of early releases declines as a percentage of the maximum achieved between 1987 and 1990, from 64 percent in 1992 to 59 percent in 1995 (see Table 3).

Accessions Are Reduced

The Army plan sets accessions in 1993 through 1995 at a level of 3,850 a year. (That is the number of accessions needed to man the projected future force.) While the accession level for 1993 through 1995 is slightly higher than the 3,700 level for 1991 and 1992, it represents a sharp reduction from those of earlier years; in 1989 and 1990, for example, accessions averaged about 5,070 a year.

More important, the reduction would leave accessions short of the sustaining level--that is, the average number that would be required over many years to sustain the OPMD officer corps at the planned level of 50,500. Accessions under this plan might range from 76 percent to 92 percent of the sustaining level, depending on future continuation behavior. The sustaining level of accessions can be calculated by dividing the desired end-strength by the average number of years an officer remains on active duty (sometimes referred to as the mean system time, or MST). The MST simply reflects continuation rates: the higher the officer continuation, the greater the MST.

In 1990, the latest fiscal year for which data were available to CBO, the MST was 10 years of service. Since the projected officer end-strength in 1995 is 50,500, an MST of 10 years implies that 5,050 new officers must be brought in each year to sustain the force. If the 1990 experience predicts future retention rates, therefore, the planned level of 3,850 accessions represents only 76 percent of steady-state accessions. That percentage would be higher if one believes that average continuation rates since 1985 best characterize future continuation rates. Using those rates, the MST rises to roughly 12 years of service. Steady-state accessions amount to about 4,200, implying that the planned accession level of 3,850 represents 92 percent of steady-state accessions.

Some Senior Officers Are Separated Involuntarily

In addition to the planned levels of accessions, the analysis assumes the involuntary separation of some senior officers. Those separations would occur among officers with more than 20 years of service. Separations of colonels and lieutenant colonels can be imposed under the "selective early re-

TABLE 3. EFFECTS OF THE ARMY'S PLAN ON ACCESSIONS AND SEPARATIONS (By fiscal year)

	1992	1995	Average 1992-1995
Accessions			
Number	3,700	3,850	3,810
Percentage of sustaining level ^a	73	76	75
Increased Early Releases			
Number	1,090	800	1,010
Percentage of maximum achieved in the past ^b	64	47	59
Involuntary Separations			
Selective early retirements	1,230	560	800
CVI/RA Board	570	340	470
Additional losses to meet end-strength targets	<u>1,490</u>	<u>2,620</u>	<u>1,910</u>
Total	3,290	3,520	3,180

SOURCE: Congressional Budget Office based on simulation model.

NOTE: CVI/RA Board = Conditional Voluntary Indefinite/Regular Army Board.

- a. Sustaining level based on current continuation behavior, that is, the willingness of officers to remain in the military.
- b. Based on maximum separations achieved during fiscal year 1990.

tirement" provisions of the DOPMA legislation. Under its plan, the Army is assumed to increase the number of lieutenant colonels and colonels identified each year for selective early retirement, with the number reaching about 1,200 in 1992.

REDUCTIONS-IN-FORCE MAY BE AVOIDED

Under these detailed assumptions about the Army's plan, the service may be able to avoid reductions-in-force of officers--primarily captains and majors--with fewer than 20 years of service. That would most probably occur if a substantial number of Army officers take advantage of the voluntary incentives for separation enacted last year by the Congress.

Estimating the Effects of Voluntary Separation Incentives

The number of officers who will take advantage of the new incentive programs depends on two considerations: how widely the Army chooses to offer the options, and how attractive individual officers consider the benefits to be in comparison with their prospects in the service.

The Army has stated that it plans to offer the new incentives for separation to about 50 percent of those officers who had between six and 20 years of service at the time of enactment. A number of factors complicate the task of projecting the effects of the incentives for separation. First, there is virtually no historical data to use as the basis for a projection. Service members in the relevant experience ranges have never had options of this sort. These programs are akin to reenlistment bonuses, though opposite in their effect. But reenlistment bonuses have only been offered to noncommissioned personnel who typically have finished between three and eight years of military service and then only in selected occupational categories. Moreover, the responses of eligible officers to the programs will be affected by their evaluations of their future military careers, their likelihood of remaining in service long enough to qualify for retirement pay, and their preferences for present over deferred income.¹ Each of those factors adds uncertainty.

1. CBO reviewed Department of Defense analyses that estimated the "taker rate," the fraction of those offered Voluntary Separation Incentive who would accept it. The estimate, which ran about 20 percent, was highly sensitive to the factors discussed in the text. For reasons also discussed in the text, CBO was unable to make an independent estimate of the number of service members who would elect to accept incentives for separation.

Even if the acceptance rates among eligible officers were known, it would still be difficult to estimate the number of *additional* voluntary separations that would occur in response to the incentives. The difficulty arises because the eligibles will include at least some of the officers who would have chosen to leave service without the incentives for separation--yet they must be assumed to be among those accepting one of the packages offered.

The Army might be able to limit that problem by offering incentives for separation only in career fields and ranges of experience where voluntary separation rates are very low. But constraining eligibility in this way would probably conflict with the Army's objectives for personnel management in terms of both experience and type of career. In addition, the Army would have no assurance that officers in the career and experience categories where it would like to trim its force are those to whom the voluntary separation incentives will appeal.

Army Estimates of the Effects of Incentives

Because of the discretion given the services to decide how widely to offer the incentive plans, the Army's intentions regarding the levels of acceptance may be the best projection of the actual number of participants. The Army currently estimates that about 4,000 officers will take advantage of both the Voluntary Separation Incentive and the Special Separation Benefit and leave the service in 1992. A total of 8,300 officers are expected to leave in the 1992-1995 period. Most or all of them would probably be OPMD officers. Because the Army expects to offer the benefits primarily to those in skill groups and ranges of experience where losses would otherwise be low, the service would argue that most of these estimated departures will represent additional losses.

The Army began accepting applications for the VSI and SSB programs on January 1, 1992. As of February 28, a total of 2,549 officers had applied for one or the other. Thus far, the Army has accepted 1,446 applications with no rejections, and it continues to evaluate the applicants. While 2,549 acceptances is a substantial response, it is likely to fall short of the projected total response of 4,000 officers expected in 1992.

Even if participation rates among those offered the program prove to be lower than the Army's expectations, the service would still have the option of increasing the number of eligibles until it reached the desired number of acceptances. Broadening eligibility in this way might increase the chance that the programs would be offered to those who had planned to leave anyway.

Yet on balance the Army's estimates appear to be the best available measure of the number of additional separations that the new package of incentives for separation will induce.

Additional Losses Sufficient to Avoid RIFs

The Army's estimates suggest that it would not have to use the personnel tool most distasteful to it and to the Congress: RIFs of officers with fewer than 20 years of service. Without additional losses from the incentives for separation, and under the assumptions of the Army's plan analyzed in this chapter, an additional 7,600 losses would be required in 1992 through 1995 to meet the end-strength targets (see Table 4). The Army estimates that the incentives would produce a slightly larger number of additional losses. Thus, the Army should be able to avoid RIFs unless additional losses fall short of projections.

Although individual years might produce differences between the projected number of losses needed and the estimated number who would opt for the incentives, the total number of losses for the period poses the greatest concern. However, the Army can spread the losses over time by speeding up or slowing down the promotion points or promotion opportunities in the field grades or both.

The Army Plan's Impact on Promotions

The Army plan should have a relatively modest impact on promotions. If one assumes promotion of as many officers to field grades as the DOPMA limits permit, there would be shifts of one year or less in the number of years of service required for promotion. As Table 5 shows, the average time required for promotion under this plan in the 1992-1995 period will be within a year of the trends in 1991. They were 11 years and 11 months, 17 years and 4 months, and 22 years and 7 months for pay grades O-4, O-5, and O-6, respectively. In addition, there would be only slight changes in the percentage of officers selected for promotion; the average percent selected does not vary much from the 1991 levels of 73 percent for majors, 70 percent for lieutenant colonels, and 44 percent for colonels.

Because it is difficult to estimate how personnel would react to the incentives for voluntary separation, the results shown in Table 5 do not reflect changes associated with the new incentives. As officers take advantage of the incentives and leave, opportunities for promotion might increase. But the in-

TABLE 4. PROJECTED LOSSES TO MEET THE END-STRENGTH GOAL
 COMPARED WITH PROJECTED ADDITIONAL LOSSES
 ASSOCIATED WITH THE NEW INCENTIVES FOR SEPARATION
 (By fiscal year)

Category	1992	1993	1994	1995	Total
					1992-1995
Projected Additional Losses Under New Separation Incentives	4,040	2,530	1,350	410	8,330
Projected Losses Necessary to Meet End-Strength Goal					
Army plan	1,490	2,010	1,520	2,620	7,640
Army plan with accessions kept near sustaining levels	1,490	2,710	2,430	3,720	10,350
Army plan with larger cuts	1,490	3,470	2,420	4,000	11,380

SOURCE: Department of Defense and Congressional Budget Office estimates.

TABLE 5. EFFECTS OF THE ARMY'S PLAN ON END-STRENGTH AND PROMOTIONS (By fiscal year)

Rank and Pay Grade	Number of Officers	Promotion Opportunity ^a	Promotion Point ^b
1992			
End Strength	60,200	n.a.	n.a.
Accessions	3,700	n.a.	n.a.
Majors (O-4)	10,980	72	12-2
Lieutenant Colonel (O-5)	7,160	70	17-4
Colonel (O-6)	2,630	44	23-2
1993			
End Strength	55,620	n.a.	n.a.
Accessions	3,850	n.a.	n.a.
Major (O-4)	10,370	73	12-4
Lieutenant Colonel (O-5)	6,960	72	17-10
Colonel (O-6)	2,560	48	23-0
1994			
End Strength	52,750	n.a.	n.a.
Accessions	3,850	n.a.	n.a.
Major (O-4)	9,980	71	12-7
Lieutenant Colonel (O-5)	6,720	71	18-2
Colonel (O-6)	2,500	49	22-7
1995			
End Strength	50,500	n.a.	n.a.
Accessions	3,850	n.a.	n.a.
Major (O-4)	9,630	72	12-4
Lieutenant Colonel (O-5)	6,510	71	17-10
Colonel (O-6)	2,460	50	22-7

SOURCE: Congressional Budget Office based on simulation model.

NOTE: n.a. = not applicable.

a. The cumulative percentage of opportunity for advancement for those who have competed for promotion to the next higher grade.

centives probably would not significantly alter the promotion results for field grade officers in the table. The bulk of the increase in losses associated with the incentives would occur among officers with fewer than 15 years of service at the time of enactment. Most additional losses are likely to occur among those with 12 or fewer years of service, when retiring at 20 years with an immediate annuity is less alluring. The promotion results in Table 5 focus on field-grade officers who have more than 12 years of service. Thus, the results would probably not change a great deal.

EFFECTS OF CHANGING KEY ASSUMPTIONS

The results under the Army plan could be altered if the retention of personnel changes or if the Army decides to seek higher accessions than CBO currently assumes.

Changes in Retention

The preceding analysis assumes that the pattern for officers who would voluntarily continue to serve would remain at its 1990 level, the latest year for which detailed data are available. As discussed later in this chapter, the new package of incentives for separation will affect an officer's willingness to remain in the Army. Even ignoring the new incentives, however, in a period when the size and nature of the Army is changing, one must still consider the pattern of officers who continue.

Although this analysis is based on the 1990 pattern of continuation, the data should offer a valid basis for projecting future behavior because they closely reflect the tastes and preferences of officers now in the Army. Nevertheless, if the pattern of officers continuing undergoes a large change, it could significantly affect the results in this paper. For example, an increase of roughly one-third in voluntary losses among those with fewer than 15 years of service would mean the departure of an additional 400 persons in 1992. Changes in behavior of that magnitude could affect the Army's ability to meet its drawdown goals without RIFs.

Maintaining Accessions at or near the Sustaining Level

Assumptions about accession levels could have an even larger effect than the continuation pattern. The Army's plan sets officer accessions at levels lower than those needed to sustain the force of 50,500 OPMD officers planned for 1995. Although the implications of low accessions are not apparent at the

outset, those accessions may nonetheless be a source of long-term concern. If the assumed level of steady-state accession (3,850) is too low to support that OPMD force, accessions beyond 1995 would have to return to higher levels. But the low levels of accessions during the 1992-1995 period would result in cohorts or year-groups too small to provide enough officers to fill future requirements for senior leadership. The Army could try to combat that problem by encouraging higher retention, but such efforts can be costly and might result in a poorer quality of leadership. Furthermore, the problem would be exacerbated if retention drops below current levels.

The potential for long-term problems would be minimized if accessions were maintained at or near the sustaining level through 1995. For example, accessions could be maintained at 90 percent of the sustaining level through 1995. Given the uncertainty about the exact number of accessions needed to sustain the officer corps over a long period, setting accessions at 90 percent of current estimates of the sustaining level may serve to minimize chances of creating long-term problems. This policy would have relatively modest effects on promotions over the next few years (see Table A-1).

Increasing accessions, however, would require that additional losses be achieved if end-strength targets are to be met. Under the specific assumptions detailed in Table 6, those additional losses would have to total about 10,400 officers between 1992 and 1995--assuming that no extra losses are associated with the new incentives for separation (see Table 4).

It is not clear that the new voluntary incentives for separation will induce 10,400 people to leave. The Army currently estimates that about 8,300 additional officers will take advantage of the incentives in the 1992-1995 period. The losses could exceed 8,300 if, for example, the new incentives prove popular or if the incentives for separating are offered to all Army officers (see Chapter V for more discussion of these possibilities). Early results suggest, however, that acceptances are not likely to exceed the projected level and may fall short of it. Thus, maintaining accessions at or near the sustaining level poses a greater risk that some officers will have to be separated involuntarily to meet current end-strength targets.

In sum, under CBO's assumptions, the new incentives for separation should permit the Army to carry out the Administration's planned reduction of officers while minimizing or avoiding RIFs. Although these results are encouraging, it is important to remember that the number of additional losses the new incentives will actually produce remains highly uncertain. Moreover, results will be less encouraging if the Army decides to raise accessions to or near the sustaining level. Results could also be different if, as seems quite

possible, the eventual reductions in the officer corps are larger than those the Administration proposes.

TABLE 6. EFFECTS OF KEEPING ACCESSIONS NEAR THE SUSTAINING LEVEL (By fiscal year)

	1993	1995	Average 1993-1995
Accessions			
Number	4,560	4,560	4,560
Percentage of sustaining level ^a	90	90	90
Increased Early Releases			
Number	1,170	800	1,010
Percentage of maximum achieved in the past ^b	69	47	59
Involuntary Separations			
Selective early retirements	720	560	660
CVI/RA Board	520	340	440
Additional losses to meet end-strength targets	<u>2,710</u>	<u>3,720</u>	<u>2,960</u>
Total	3,950	4,620	4,060

SOURCE: Congressional Budget Office based on simulation model.

NOTE: CVI/RA Board = Conditional Voluntary Indefinite/Regular Army Board.

- a. Sustaining level based on current continuation behavior, that is, the willingness of officers to remain in the military.
- b. Based on maximum separations achieved during fiscal year 1990.

CHAPTER V

EFFECTS OF LARGER FORCE REDUCTIONS

Both the domestic fiscal climate and the diminution of military threats to the United States raise the possibility that the defense budget will undergo cuts beyond those the Administration proposes. For purposes of illustration, this analysis considers the effects of a decision to reduce the corps by 3 percent in 1993, 5 percent to 6 percent in 1994, and about 8 percent in 1995.¹ Those percentages of reductions are roughly consistent with defense spending cuts that Members of Congress have proposed in recent months.

ADDITIONAL LOSSES REQUIRED TO MEET END-STRENGTH TARGETS

To secure these additional cuts in officers, the Army could seek to induce more junior officers to accept early releases. The Army could also elect to impose further reductions on accessions, but that choice would leave accessions substantially below their sustaining level--even for a smaller force.

Instead, CBO assumed that the Army would accommodate the additional cuts by increasing the number of selective early retirements (SERs) among officers with 20 or more years of service and by increasing reductions-in-force among those with fewer. The additional authority for selective early retirement would afford some opportunity to increase the number of SERs. CBO assumed that, in 1992 and 1993, the Army will take advantage of the expanded SER provisions to increase the number of lieutenant colonels and colonels selected for early retirement by a total of 2,160 (see Table A-2). However, by 1995, according to the assumption, the Army would have used up all of its flexibility for SERs in the pay grade of colonel; in fact, CBO projects a slight decrease in SERs of colonels in 1995.

1. The precise percentage of reductions used in the calculation for 1994 and 1995 (5.6 percent and 8.2 percent, respectively) are based on CBO testimony about defense reductions presented to the Senate Budget Committee on July 16, 1991. CBO assumed that a 3 percent reduction in 1993 would smooth the transition to the larger cuts.

EFFECTS OF VOLUNTARY INCENTIVES FOR SEPARATION

Even given the increased number of SERs plus the other assumptions detailed in Table 7, CBO projects that, before accounting for the effects of the new incentives for separation, the Army would need an additional 11,400 losses in the 1992-1995 period in order to meet the end-strength targets under the larger cut. According to the Army's estimates, as discussed in the preceding chapter, about 8,300 more officers might leave because of the new incentives for separation. Those additional departures would provide slightly less than three-fourths of the required additional losses (see Table 4).

Thus, in the case of the larger cuts, the voluntary separation incentives might not produce sufficient additional losses to avoid the need for reductions in force. Indeed, given the Army's current estimates of the effects of the incentives for separation, it would have to RIF about 3,100 officers between 1992 and 1995 under the case for larger cuts.

Important caveats to this conclusion suggest that net additional RIFs could be fewer than 3,100. The analysis does not take into account possible behavioral changes in the patterns of officers continuing to stay on that might occur in response to the further reduction in personnel levels. For example, the announcement of an additional cut in the corps might induce more officers to accept the offer of incentives to separate rather than risk being involuntarily separated.

The Army could also respond to the larger cuts by offering the new incentives for separation to more of its officers, although that might not yield enough losses to offset the need for a substantial number of RIFs. The Army currently plans to offer the incentives for separation to about half of its officers. If *more* than half received the offer, at least some of the additional number might accept it, thus reducing requirements for RIFs below the levels suggested in Table 7. The Army, however, plans to limit the offering to officers in years-of-service groups and career categories in which voluntary losses are low. This plan would minimize the amount of money the Army unnecessarily pays out in annuities and cash bonuses.

TABLE 7. EFFECTS OF THE ARMY'S PLAN ON ACCESSIONS
AND SEPARATIONS ASSUMING LARGER CUTS
(By fiscal year)

	1992	1995	Average 1992-1995
Accessions			
Number	3,700	3,850	3,810
Percentage of sustaining level ^a	73	76	75
Increased Early Releases			
Number	1,090	800	1,010
Percentage of maximum achieved in the past ^b	64	47	59
Involuntary Separations			
Selective early retirements	1,230	640	890
CVI/RA Board	570	340	470
Additional losses to meet end-strength targets	<u>1,490</u>	<u>4,000</u>	<u>2,840</u>
Total	3,290	4,980	4,200

SOURCE: Congressional Budget Office based on simulation model.

NOTE: CVI/RA Board = Conditional Voluntary Indefinite/Regular Army Board.

- a. Sustaining level based on current continuation behavior, that is, the willingness of officers to remain in the military.
- b. Based on maximum separations achieved during fiscal year 1990.

APPENDIX A

TABLES

TABLE A-1. EFFECTS OF KEEPING ACCESSIONS NEAR THE SUSTAINING LEVEL ON END-STRENGTH AND PROMOTIONS (By fiscal year)

Rank and Pay Grade	Number of Officers	Promotion Opportunity ^a	Promotion Point ^b
1992			
End Strength	60,200	n.a.	n.a.
Accessions	3,700	n.a.	n.a.
Major (O-4)	10,980	72	12-2
Lieutenant Colonel (O-5)	7,160	70	17-4
Colonel (O-6)	2,630	44	23-2
1993			
End Strength	55,620	n.a.	n.a.
Accessions	4,556	n.a.	n.a.
Major (O-4)	10,370	73	12-4
Lieutenant Colonel (O-5)	6,960	72	17-10
Colonel (O-6)	2,560	48	23-0
1994			
End Strength	52,750	n.a.	n.a.
Accessions	4,556	n.a.	n.a.
Major (O-4)	9,980	71	12-7
Lieutenant Colonel (O-5)	6,720	71	18-2
Colonel (O-6)	2,500	49	22-7
1995			
End Strength	50,500	n.a.	n.a.
Accessions	4,556	n.a.	n.a.
Major (O-4)	9,630	71	12-4
Lieutenant Colonel (O-5)	6,510	71	17-10
Colonel (O-6)	2,460	50	22-7

SOURCE: Congressional Budget Office based on simulation model.

NOTE: n.a. = not applicable.

- a. The cumulative percentage opportunity for advancement for those who have competed for promotion to the next higher grade.
- b. The number of years and months of service at which officers typically can expect promotions.

TABLE A-2. INVOLUNTARY SEPARATIONS UNDER THE ARMY'S PLAN,
ASSUMING A LARGER REDUCTION IN DEFENSE SPENDING
(By fiscal year)

Source	1992	1993	1994	1995
Selective Early Retirement of Lieutenant Colonels	900	560	500	440
Selective Early Retirement of Colonels	330	370	270	200
Additional Losses to Meet End-Strength Targets				
Captains (O-3)	730	2,680	1,930	3,180
Majors (O-4)	760	800	490	810

SOURCE: Congressional Budget Office based on simulation model.

APPENDIX B

DESCRIPTION OF ESTIMATION METHOD

This appendix describes briefly the method used to project the effect that alternative strategies designed to reduce the officer corps will have on accessions, separations, and promotions. First, the officer population analyzed in this study is discussed, followed by a description of the modeling procedure.

STUDY POPULATION

The Congressional Budget Office did not have data on all of the Army's diverse officer subpopulations, many of which do not fall under the coverage of DOPMA and hence do not exhibit the same career patterns as OPMD officers. Instead, CBO's analysis focused on OPMD officers, who are eligible to command major weapon systems and combat units, while excluding generals and doctors, lawyers, intelligence personnel, and other officers providing support services. As a result, CBO concentrated on OPMD line officers since they represent the bulk of commissioned and DOPMA-accountable officers and would bear the brunt of any reductions in the officer corps. Consequently, the examination of the effects of the drawdown on this all-important subpopulation will indicate the impact on the total commissioned officer force.

OVERVIEW OF THE CBO MODEL

The model this paper relies on is an updated version of the Army officer model developed by CBO and used in a previous CBO report.¹ It is an inventory flow model that details the promotion patterns of OPMD officer personnel. The model was calibrated previously and performed well.² More

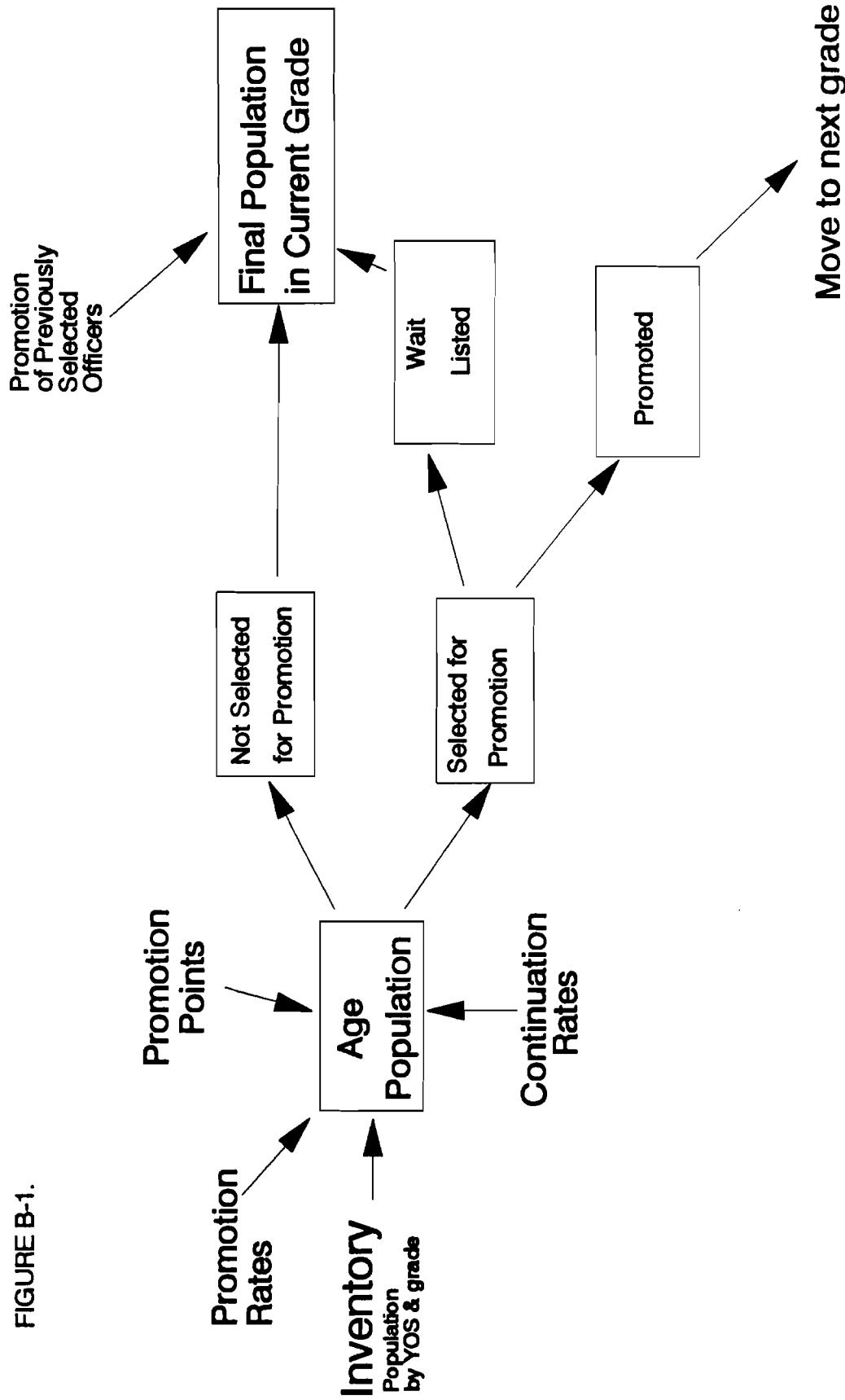
1. See Congressional Budget Office, *Reducing the Size of the Military Officer Corps: Effects on Promotions and Accessions*, Staff Working Paper (February 1988).

2. *Ibid.*, p. 40.

recently, it was validated by comparing its projections with those of the Army's model and found to produce comparable and consistent outcomes.

An overview of the model is depicted in Figure B-1. For each year, officer inventories are projected for pay grades O-1 through O-6. As Figure B-1 shows, the beginning inventory of officers by year of service and pay grade (including a predetermined accession level) are simultaneously aged and subjected to the promotion process. This is accomplished by applying the appropriate continuation rates, promotion opportunity rates, and promotion points. The officers eligible for promotion are either selected or not selected for promotion. Of those officers selected, some are promoted ("pinned on") in the same year and are thus counted in the inventory of officers in the next higher pay grade. The others are placed on the wait list and remain in the final population inventory in the current grade, where they are joined by non-selectees for promotion along with officers promoted from the wait list who were selected for promotion in a previous year. The requisite DOPMA limits and the size of the wait list combine to help determine the new promotion points for the succeeding year.

FIGURE B-1.



SOURCE: CONGRESSIONAL BUDGET OFFICE.

NOTE: YOS = Years of Service